

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-06 FRB-01

INR-07 NSAE-00 RSC-01 TRSE-00 XMB-04 OPIC-24 SP-02

CIEP-02 LAB-03 SIL-01 OMB-01 ABF-01 FSE-00 PA-02

PRS-01 USIA-15 DRC-01 /090 W
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FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC 2228

INFO AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

UNCLAS BRUSSELS 8002

PARIS FOR RFC

TREASURY ALSO FOR COMPTROLLER OF THE CURRENCY

DEPARTMENT ALSO PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, BE

SUBJECT: IRREGULARITIES IN FOREIGN EXCHANGE ACTIVITIES OF BELGIAN
BANK REVEALED

1. AFTER A WEEKEND OF RUMORS IN BELGIAN FINANCIAL CIRCLES,
BELGIUM'S SECOND LARGEST BANK, REVEALED ON OCTOBER 14 THAT
IRREGULARITIES HAD OCCURRED IN THE BANK'S FOREIGN EXCHANGE
DEPARTMENT. ACCORDING TO THE LIMITED INFORMATION
AVAILABLE FROM CLOSE-MOUTHED BELGIAN GOVERNMENT OFFICIALS
AND FROM THE PRESS, THE IRREGULARITIES WERE DISCOVERED ON OCTOBER
8 WHEN THE BANK'S INTERNAL AUDITORS CAME ACROSS CORRESPONDENCE
FROM A FOREIGN BANK WHICH REFERED TO FOREIGN EXCHANGE TRANSACTIONS
WITH THE BANK OF BRUSSELS WHICH WERE UNRECORDED IN (1) THE FOREIGN
EXCHANGE DEPARTMENT'S REPORTS TO THE AUDITORS,

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(2) THE BANK'S DAILY REPORTS TO THE BELGI-LUXEMBOURG

FOREIGN EXCHANGE INSTITUTE, AND (3) THE BANK'S MONTHLY REPORTS TO THE BANKING COMMISSION AND BELGIAN CENTRAL BANK. FOUR EMPLOYEES IN THE FOREIGN EXCHANGE DEPARTMENT OF THE BANK ARE EXPECTED TO FACE CRIMINAL CHARGES FOR MAKING "UNRECORDED" TRANSACTIONS IN THE BANK'S NAME.

2. ESTIMATES OF THE LOSS TO THE BANK WILL NOT BE KNOWN FOR SEVERAL MONTHS UNTIL AFTER ALL FORWARD TRANSACTIONS IN THE VARIOUS CURRENCIES MATURE BUT THE HIGHEST ESTIMATE MENTIONED TO US HAS BEEN US DOLS 50 MILLION. MOST SOURCES EXPECT THE LOSS TO BE UNDER DOLS 25 MILLION -- PERHAPS SUBSTANTIALLY UNDER.

3. THE BANK OF BRUSSELS' OWN RESERVES WILL COVER ANY LOSSES, ACCORDING TO THE BELGIAN FINANCE MINISTRY, AND THERE WILL BE NO NEED FOR THE BANK TO CALL ON HELP FROM OTHER BANKS OR THE GOVERNMENT.

4. THE BANK OF BRUSSELS HAS NO BRANCHES OR SUBSIDIARIES IN THE UNITED STATES ALTHOUGH IT HAS A REPRESENTAIVE OFFICE IN NEW YORK.

5. ON A FIFTY-FIFTY BASIS, THE BANK OF BRUSSELS AND CHASE-MANHATTAN OWN THE ANTWERP-BASED BANQUE DU COMMERCE. THIS BANK IS USED BY MANY AMERICAN GOVERNMENT AGENCIES IN BELGIUM AS THEIR MAIN DEPOSITORY. SINCE IT IS INDEPENDENT FINANCIALLY FROM THE BANK OF BRUSSELS, HOWEVER, IT WILL REMAIN UNAFFECTED BY ANY LOSSES SUSTAINED BY ITS OWNERS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BANKS, FOREIGN EXCHANGE RATES, INVESTIGATIONS, PERSONNEL SEPARATIONS, ARRESTS
Control Number: n/a
Copy: SINGLE
Draft Date: 15 OCT 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BRUSSE08002
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740293-0500
From: BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741045/aaaabmqv.tel
Line Count: 90
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: kellerpr
Review Comment: n/a
Review Content Flags:
Review Date: 09 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 APR 2002 by chappeld>; APPROVED <17 APR 2002 by kellerpr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: IRREGULARITIES IN FOREIGN EXCHANGE ACTIVITIES OF BELGIAN BANK REVEALED
TAGS: EFIN, BE
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005